RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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Mar. 21, 1990 **LETTER 1039**

Mar. 9 DJIA 2683.33; PTI 3267; A-D Ratio -9.60
Mar. 16 DJIA 2741.22; PTI 3281; A-D Ratio -9.45
Dow Yield: 3.81%; Dow P/E: 11.8; DowPow: 365
Dow Book Value: 1075; Dow 200-day MA: 2638
Percentage of Undervalued Blue-chips: 20%
PTI 89-day Moving Average: 3280

THE PICTURE: The majority of stocks and funds (including open and closed end funds) topped out between last August and last October. That means that at the end of January a lot of stocks had been declining for six months or more. During January, under Dow Theory, we received a primary bear signal. Following that signal the market continued to drop, and drop hard. By the close of January the market was in an oversold condition and pessimism was running fairly high.

The picture shows clearly on the accompanying weekly chart (courtesy of *Mansfield*). Here we see the dramatic collapse in the D-J Transportation Average, while the resistant D-J Industrial Average bounced off the 2560 level. At its January low the Transportation Average had lost an amazing one-third of its total value. But during the same period the Dow had erased only 9.5% of its own total value. Clearly, the Dow was not ready to give up the ghost, even if the Transports were.

As to the big picture, here's what I see. The Transports are shot, they're "out for the duration" of this bear market. But the resistant (so far) Dow could fool us and spurt, but "one robin doesn't make a spring," and one strong average doesn't make a bull market. There's no question about it, the big capitalization, blue chip type stocks are the strength of this market. Meanwhile, the great mass of stocks on the NYSE, the AMEX and the OTC are "heavy."

The breadth of the market has been unimpressive on the rally as has NYSE volume. Of course, that could change. Actually, a lot of things could conceivably change. The Transports could suddenly come to life, the advance-decline figures could turn strong and volume on the upside could explode. But I just don't think that's going to happen.

When I started these reports in 1958, my main concern was simply the NYSE. But times have changed. Today I watch the money markets, commodities, precious metals, the NYSE, the AMEX and the NASDAQ, domestic and international economics, the various foreign exchanges and on and on.

And don't underestimate the foreign exchanges. For decades it was said, "when America sneezes, the rest of the world catches a cold." The US doesn't have a monopoly on ominous sneezes any longer. Today, when Japan or West Germany, or even London, sneezes, the US takes out its handkerchief.

And what are the markets of the world doing now? What I see in the various foreign market averages is the formation of tops -- in some cases tops that are beginning to break down. Now remember this -- major tops take time to form, and usually the longer and more complex the top, the greater the ultimate fall.

However, my feeling is the bear has some nasty plans for this market, plans that will surface before the year is out. Again, let me emphasize this point -- the bear doesn't want to go down in an empty elevator. No, he wants to go down with the elevator full, chocked full of investors from wall to wall. Right now the elevator is hesitating or still rising -- even though slowly. Before 1990 is out the elevator will be heading for lower floors. And there'll be plenty of optimistic investors aboard.

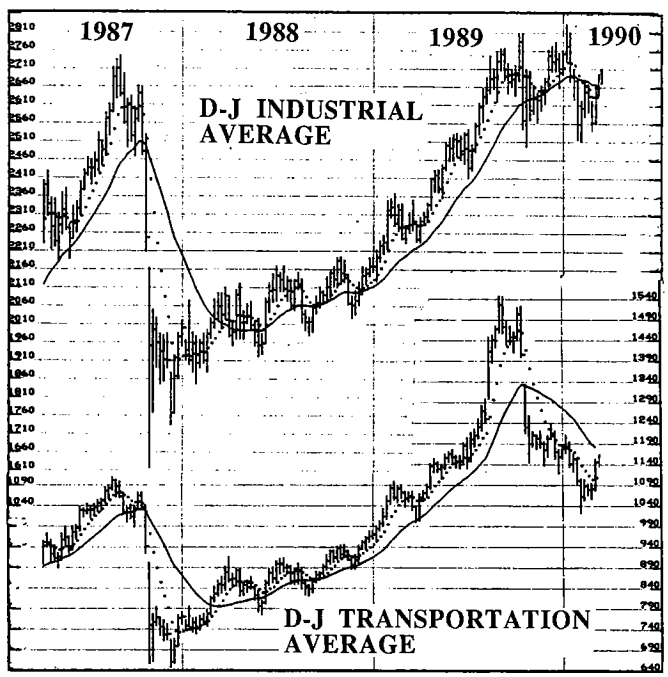
Growth Fund Guide (Box 6600, Rapid City, SD 57709) does some excellent market research -- particularly research on the most advantageous times to buy and to sell. They note that since 1897, the stock market has been in a bull mode about 66% of the time and in a bear mode roughly 34% of the time. Those are average statistics covering a 93-year period.

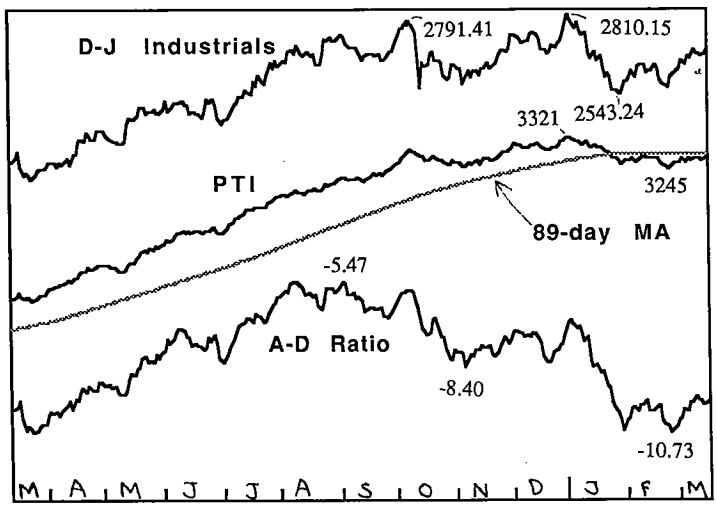
But during the ten year period from 1981 to 1990, the Dow has been in a bull mode about 84% of the time and in a bear mode only 16% of the time. That tells us if the market is to conform to the average action of the past 93 years, we could see more bear market behavior in the current area.

My Primary Trend Index (PTI) has been doing a high-wire act. It recorded its high (see page 2 chart) on January 2 at 3321. From there the PTI started down. On January 25, the PTI broke below its 89-day moving average (rendering a bear signal), and it has remained below its moving average ever since.

Frankly, I was surprised when the February-March rally failed to take the PTI back above its moving average, but as you can see on the chart, the PTI has remained in the bearish mode. In the period ahead, it will be important to see whether the PTI can get back above its moving average (which now stands at 3279) -- or whether the PTI will break to a new low below the 3245 level of February 23.

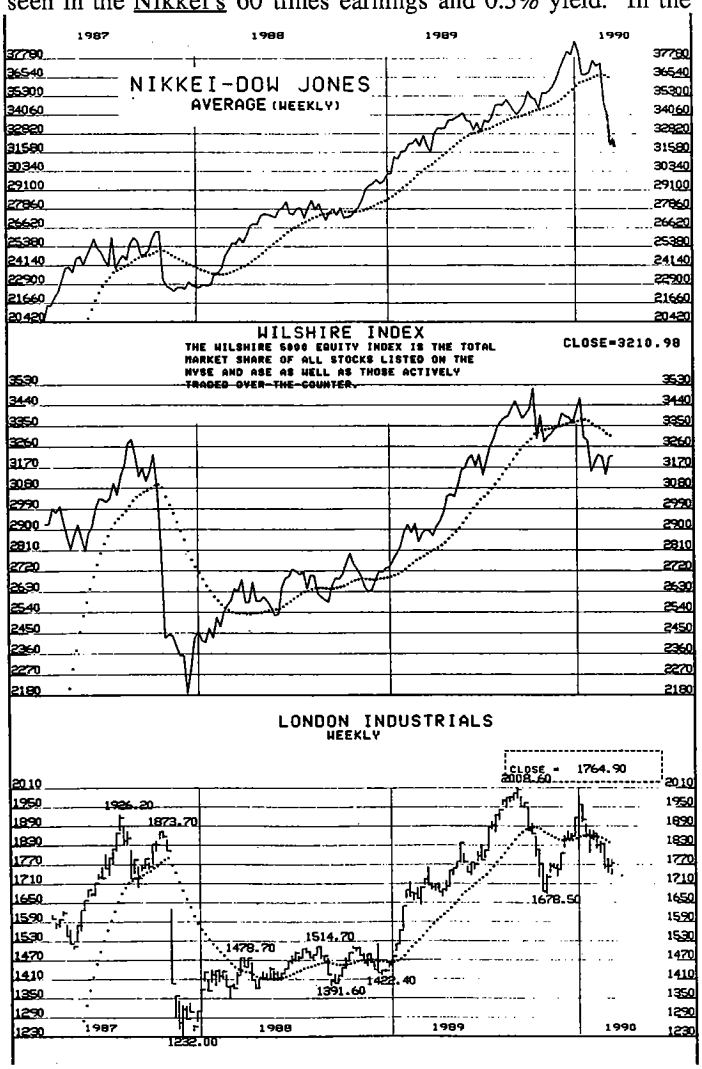
When tops are in the process of formation, it is usual to see many rally attempts from lower support levels. These rallies use up buying power. Ultimately, the last buyer will have spent his money. The market is then ready to go down in earnest. That's why extended, complex tops are so often followed by nasty declines. They're followed by nasty declines because buying power has been exhausted.





Now turn to the charts on page 2. This will give you a brief picture of what's happening. On the first chart we see the Japanese Nikkei breaking its trend and plunging below its moving average. On March 14, the Nikkei broke to the 32,300 area, it's lowest level in a year.

One of the rules I subscribe to is this -- over any extended period of time all investments move towards true VALUE. During the last decade the Japanese stock market roared far above real value as seen in the Nikkei's 60 times earnings and 0.5% yield. In the meantime, Japanese bond yields pushed up to the 6.5% to 7% zone. And I ask myself, what if the Nikkei stock average is fated to drop to the point where it sells at even a rarefied 3% yield? What if the Nikkei were to return to real value? So far in 1990, the Nikkei has lost 16% of its value. In the face of this, Japanese investors are being told to sit tight, stock prices always come back.



The second page 2 chart shows the Wilshire Index (US) breaking down below its moving average. The Wilshire is made up of all the actively listed stocks on the NYSE, the AMEX and the OTC. This is a dollar value index showing the actual value in dollars of all actively traded US stocks. Note that the total value is now lower than it was at the index's peak in 1987.

Next we have the London Industrials, and here again we see what appears to be a topping formation. It's the same story in most of the stock markets of the world, from Asia to Europe, and back to the US.

Feelings and instincts about the market and the economy can sometimes be valuable and right on the money -- and sometimes they can amount to so much mental garbage. For what it's worth, here's my instinct about this market. There continues to be a good deal of confusion (and numerous arguments) about whether this is really a bull or a bear market. Some analysts still proclaim loudly, "We'll see the Dow at 3000 by year end." Others are just as boldly predicting "a collapse before the year is out."

I believe we're in a bear market, but the bear has work to do. The work (ironically) boils down to convincing people "all is well with the stock market and the world." When the all-out collapse that many have predicted fails to materialize (and it has failed so far), people begin to get hopeful (bullish) again. That's what we could see over the period ahead.

INVESTMENT POSITION: The bear remains in the box. I guess the best explanation for my investment position is contained in the "Strategies" section of this letter.

The markets (all of 'em) seem to be increasingly difficult to trade, and I say this judging from talks with traders, from their recent records, and from comments I read in leading trading advisories. Trading profits have just been very hard to come by in 1989-90, so be advised.

I'm largely in T-bills, while continuing my policy of buying a fixed amount of gold (and some platinum) each month.

STRATEGIES: I would guess there has been more money LOST by investors trying to beat inflation than in any other way. The second biggest reason for losses is probably in trying to beat the stock averages.

Why do investors lose money trying to beat inflation or trying to beat the averages? The main reason is that such endeavors (often obsessions) result in their losing sight of the basic investment picture. What is the basic investment picture? Well, everyone seems to have a basic picture of his own. In my opinion, the true basic picture is one in which the investor opts for (first) safety of capital, (second) income, and (third) appreciation of capital. Most investors, if they've thought about it at all, think in terms of reversing this process. In other words, they opt for appreciation or profits first, income second, and safety of capital last.

Now let's take the case of two investors. Investor number one has $5 million dollars. This fortunate investor can get a safe tax-free 6% on his money, so he has a real income (free of taxes) of $300,000 a year. He's invested mainly in muni money market funds, short-term muni bonds, a few leading gold shares and a sprinkling of other items. This investor spends $100,000 a year

on living expenses, and reinvests (compounds) the remaining $200,000. He's not concerned about inflation, because, regardless of what's happening in the markets, he's saving $200,000 a year and at 6% interest (on the $200,000 saved). That means his income is rising at a rate of $12,000 a year. In other words, this investor is in the compounding business, and his income is rising at the rate of $12,000 a year or $1,000 a month. So this investor feels that he is far outperforming the ravages of inflation as far as his living expenses are concerned.

But what about his capital? This fellow is a value investor, so he will sit on his money market funds until great values appear somewhere -- in stocks, in bonds, in real estate, in collectibles, in precious metals or perhaps even in a business. He's patient, he's very well financed, he's got his expenses under control, and he's under no pressure to "do something brilliant."

Now let's take investor number two, a fellow who has $50,000 in assets. Here's how he reasons: to invest this at 6% doesn't really help him, since it will only bring in $3,000 a year. So he decides to speculate. He does well the first year. He takes profits of $10,000 out of the market. After taxes he has about $6,000 of profits left. The next year he speculates again. He loses $4,000. Now he's almost back to where he started. "I had to do it," he tells himself. "Inflation was killing me. I really had no other choice."

What's the answer for this fellow? I know what I would do (and what I actually did) when I was at his stage. I did what investor number one did -- I saved and compounded. And when there was a bear market -- when stocks went into the tank and great values became available, -- I loaded up on dividend-paying stocks. Then, when values seemed to be over-blown, I got out of the market -- applying the first rule, which is safety of capital. Over the years my money compounded, and I added more money to the total. It worked. I was ahead year after year.

My philosophy, gleaned from handling my own account and my family's accounts and in studying the result of hundreds of investors is -- patient compounders and value-buyers generally far out-perform speculators. Now when I say speculators I'm not talking about those rare financial geniuses like Warren Buffet or Carl Icahn or maybe even Donald Trump. I'm talking about the average American and even the above-average American. You see, I've seen too many speculators who were obsessed with beating the market or beating inflation. As a rule, the market or inflation will ultimately beat them. And it's a shame. It doesn't have to be that way.

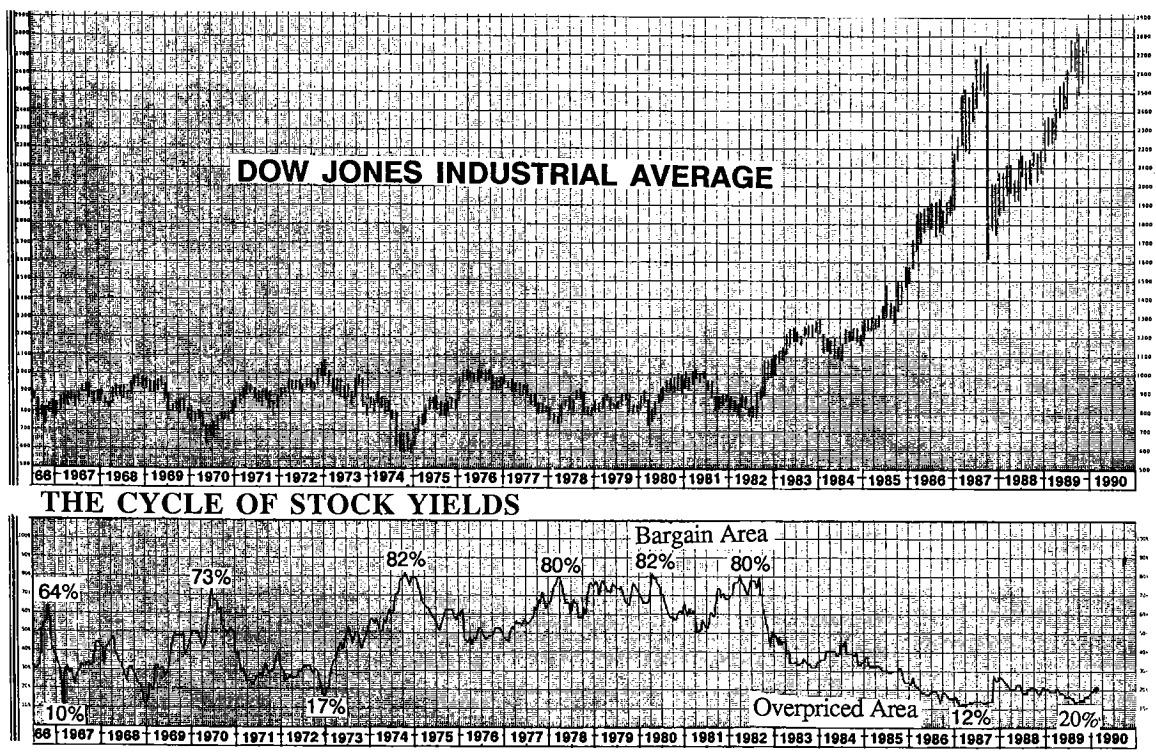
How do you know when the market is a bargain? How do you know when stocks are a screaming buy? One way is simply via yields. But yields are not the whole story. "Cheap stocks" can always get cheaper, as investors realized (to their horror) in 1932 when the Dow plunged to a final low of 41.22, at which point the Dow was yielding over 10%. But the 1932 disaster not withstanding, it is well to remember that major bear markets have always advanced the Dow yield to around 6% or more. When that happens, you can start looking for a major bear market bottom and bargain stocks.

Investment Quality Trends here in La Jolla publishes a very valuable chart. This outfit follows 350 blue chip NYSE issues, and each one of those blue chip stocks is graded as to whether it is cheap, neutral or expensive. The grading is based on where each stock is in relation to its own historic yield cycle. The accompanying chart (courtesy of *IQ Trends*) is very instructive. As you can see, when the undervalued percentage of blue chip stock drops to the low area, around the 15% to 17% or less, the market can be considered expensive and in a top area -- maybe not THE top but in a top area. In other words, when there are a very small percentage of undervalued blue chips its time to be very, very careful. The risk/reward equation is against you.

But at the other end of the cycle (the bargain zone), undervalued stocks will be dotting the Big Board, and that's the time when experienced investors are accumulating. Any time that 75% and certainly 80% or more of the blue chips are undervalued, you can start moving out of your cash, your bonds, even your gold -- and into common stocks.

Note on the chart that the last time we experienced "bargain time in America" was in 1982. Before that it was 1980 and before that it was 1978. What's the undervalued percentage now? The latest count was 20%, still very far from the bargain area of 1980.

Will we ever see bargain time again? Will we ever see 75% or 80% of the Big Board blue chips in the undervalued area again? My answer: You'll see it, count on it, bet on it. You will see bargains again. But most important of all, you must be prepared for the bargains. How do you prepare? You prepare by being liquid, having your cash and your mind ready. Remember this -- it's never easy to buy when stocks are on the bargain table. And the reason for that is clear enough. **BAD NEWS IS WHAT**



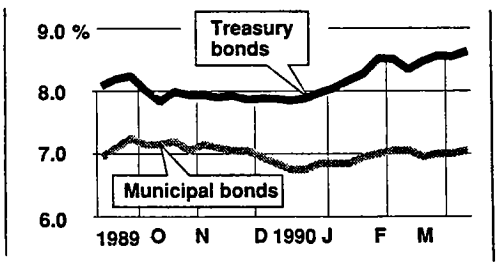
PUTS STOCK IN THE BARGAIN ZONE. By the same token, optimism and good news pushes stocks to the overvalued zone.

This then, is the background you need if you are a long-term compounder and a buyer of stock-bargains. In other words, you have to know where you are in the cycle. The key now is that only 22% of all blue chips are bargains. But somewhere ahead, brought on by circumstances that I cannot predict, stocks will be on the bargain counter, and I mean 75% to 80% of ALL blue chip stocks.

I've studied cycles and market swings and repetitions and waves for over forty years. And I can tell you that there is only one cycle that I absolutely count on. That is the cycle of human emotions -- the swing from abject, black pessimism to absurd, rosy optimism and then back to pessimism again. I receive a number of advisories based on cycle timing (and I know about Kondratieff). But I must admit that I have never seen the cycles timed to my satisfaction. But again and again I have seen the extremities of the cycle IDENTIFIED.

Conclusion: identifying the cycles and the extremities of those cycles is the key to long-term investment success. But there is one necessity and that's PATIENCE.

NOTES & QUOTES: There are now around 3000 mutual funds, far more than the roughly 1700 stocks listed on the NYSE. A large number of these funds are money market funds and bond funds including municipal bond funds. Although the bond market has been taking a beating, it is notable that municipal bonds have done better than Treasury bonds, as this yield chart indicates.



One reason, of course, is that the public hates taxes, and muni bonds and muni money market funds remain one of the few ways to avoid taxes (with munis you don't defer taxes, you eliminate them). The only problem with munis is the potential problem of credit ratings. Many states, counties and cities are now deep in the red, and their bonds could be (and are being) downgraded for credit (naturally, when a bond is downgraded it drops in price). On March 13, the muni bond contract (basis June) dropped to 89.9, lowest level since last May.

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Gee, we won World War II, didn't we? Yeah, but that was military and this "war" is economic. So I gulped as I read that the two largest business groups in Japan and Germany, Daimler-Benz and Mitsubishi, are working on what the *New York Times* calls "one of the most far-reaching industrial link-ups." In the new link-up, Daimler will get some of Japan's best technology, and Mitsubishi will get a much-desired foothold in Europe before 1992. The *Times* noted, "The arrangement could also pose an enormous competitive challenge for the US, pitting the US against the combined talents and marketing skills of the two most aggressive industrial groups in the booming German and Japanese economies." I'd agree with that assessment, wouldn't you?

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Are lawyers taking over the world? Probably. But it's not all milk and honey. In a poll taken in the state of Washington, 85% of young lawyers stated that if they had it to do over again, they would not enter the legal profession. Ah, but there are compensations. According to the Mar.12 *National Law Journal,* top firms in NYC pay around $83,000 for first year lawyers. And the pay increases. For instance, if you make it through seven years at prestigious Sullivan and Cromwell, you're pay is $191,000.

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The US S&L bailout has become an open-ended monster. The cost to the US (read taxpayers) over the next ten years is now estimated to be over $200 billion. It looks like the government will take over 800 S&Ls, one third of the entire industry (original estimate, 400). Expenses due to bureaucratic stalemates are running $14 million a week, and the FDIC has already laid out $177 million for legal expenses. Due to the takeover, the US is now the nation's largest holder of junk bonds and its holdings of real estate are over $180 billion.

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What we see as far as Japanese markets are concerned is most often the price of the Nikkei stock average, which is perilously high on a P/E and yield (or should I say no-yield) basis. But get this -- two-thirds of Japan's net worth is in its inflated land values, compared with only one-quarter in the US. As Japanese land values rocketed up during the 1980s, so did their stock market. Japanese companies can use their Tokyo properties as collateral to raise massive amounts of investment capital. But if real estate and particulary land prices ever sink in Japan -- watch out! By the way, one of the secrets of why the Japanese don't sell their land is the very low taxes on Japanese land.

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The post WWII Marshall Plan that literally rebuilt Europe cost $13.3 billion over four years. Today's action is faster. Already closed-end single-country funds have bought $3 billion of assorted European stocks and another $1 billion of single-country funds is in the hopper. The Marshall Plan sought to rebuild Europe. The new fund money is looking for -- profits.

* *

The Soviet's credit rating is sliding, and many Japanese, US, German, Italian and British firms say they haven't been paid since last October. As a result, many suppliers have stopped shipping goods to the Soviets. Another complaint is that "nobody's in charge." Sellers to the Soviets can't find anyone who can make final decisions. Russell question: They're lining up at McDonalds in Moscow to buy burgers and fries. But what does McDonalds do with all those junky rubles? (In the Soviets there's a flight from rubles). Anybody know? I've wondered.

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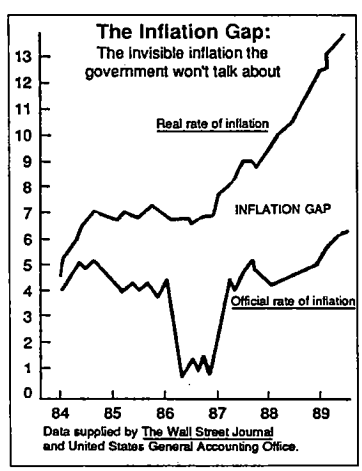
Will there be a peace dividend? If there is, it's already wiped out by the increase in the cost of interest on the US federal debt. Last year the increase in the total federal debt amounted to $255 billion. That means that interest costs this year will be up $20 billion -- on top of last year's huge interest rate expenses of $169 billion. And it's not getting any better! This fiscal year the federal debt has already shot up an additional $117 billion.

* *

Is inflation really running at only 4-5%? I've questioned this statistic all year. Old buddy Harry Schultz (of international advisory fame) agrees with me, and in his latest report he publishes this chart. The chart is from statistics put out by the *Retirement Letter*, which claims that true inflation is running at 13.9% rate. I wouldn't doubt it for a minute (my own estimate is around 10% current inflation).



My friend, Charles Vernon Myers died on February 23 at age 77. I read the obituary which a kind subscriber sent me, and I said to myself, "Damn, there goes the last really honest man." C.V. was not only 100% honest, he was a fighter (I guess if you want to be honest these days you'd also better learn to fight). I first met C.V. back in 1974 at the first big New Orleans hard money seminar. C.V. was writing about the US government's lies and distortions then, and he never stopped writing on that subject. Later when C.V. bought and held some gold for his clients he got in trouble with the US and the Canadian governments. The Canadian authorities said that the gold was subject to income tax. C.V. was jailed in Canada, but continued writing his newsletter. He tried to negotiate a settlement with the Canadian authorities, but to no avail. He left (escaped from) Canada to the US. But when his wife was on her deathbed, C.V. went to her side (back in Canada) and was arrested again. C.V. was forced to finish the last two years of his prison term. C.V.'s life was one long battle against deceit, lies and double-talk. I'll miss him.

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Wall Street may not be booming but football is. The NFL's new TV contracts are mind-blowers. The NFL just wrapped up a deal with five networks for a total of $3.6 billion over four years. This gives each of the NFL's 28 teams roughly $32 million a year, double the previous package. Without counting income from ticket sales and beers and others items, the TV deal alone covers all players' salary expenses. With income from ticket sales, concessions and radio deals, each team will bring in about $50 million a year (average total expenses $35 million)., The players salaries average $300,00 a year. Let 'em go to $400,000 a year (which they probably will) and the total player payroll is only $21 million. The new TV deal will explode the value of NFL franchises, probably into the $125-150 million category or more in many cases. The problems: TV advertising rates will go up, and there may be resistance there. Second problem: the new cost of NFL football could send some networks into the red. Third: watch the players push for MAJOR salary boosts. Fourth: it's all very inflationary.

* *

The depression on Wall Street has not passed Dow Jones by. Since the '87 crash the *Wall Street Journal's* circulation has dropped 6.4%. Operating income of Dow Jones & Co.'s business publications division (largely the *Journal* and *Barron's*) dropped 11.4% last year to $100 million. That was the fifth drop in as many years.

* *

The Soviets, our number one enemy for decades, are broke and no longer considered an aggressive military threat. In the face of this watershed change, the Pentagon has been frantic to find a new use for our giant military. The idea they have come up with is to join the war against drugs. To be more specific, the Pentagon wants to use our warships and planes to block off drugs from the Caribbean. They also want to set up a military "radar net" off the coast of Columbia. According to the March 9 *NY Times*, "After a Columbia meeting, President Barco suggested that he was not interested in any increase of US navy activity off the coast of his country."

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Last year there was a total of $5.4 billion in junk bond defaults. This year already we have seen over $3 billion in junk defaults. That's nine times the $350 million in new junk bonds that have been issued this year.

* *

Are guns the killers -- or are killings with guns a sign and symptom of the times? I think the latter. A month ago some guys drove a truck into the front of a San Diego gun shop. Jumping through the smashed front, the perpetrators stole dozens of guns. Two weeks later, incredibly, they smashed through the same gun shop again and stole an additional collection of guns. Moral: if criminals want guns, they're going to get them. I've said this before, and I'll repeat it -- I'll be glad to give up my own guns the day after the rapists, dopers, muggers and robbers have given up their guns. But I don't want to be first. . . Washington DC has one of the toughest gun laws in the nation -- the law is "no guns." That law was instituted 14 years ago. Since then murders in Washington have increased 121%, and DC is now called "the murder capital of the US." Guns and murders are symptoms of an angry, violent, poverty-ridden, dope-ridden society. To my mind, the operative word is symptom -- not cause.

* *

Extreme punitive measures aren't feasible or desirable in a democracy such as the US. But they are used in others lands. In Saudi Arabia, for instance, the punishment for stealing is -- the thief's hand is cut off. It is said that nobody in Saudi Arabia has ever lost both hands. In Singapore, the penalty for trafficking in dope is death. Singapore, as you might suspect, is becoming famous for its lack of crime.

* *

I find Forbes' *American Heritage* a fascinating magazine. Their current issue centers on the Civil War. The issue is also a study in how times change, and how the dollar has been debased. For instance, at the outbreak of the Civil War the US government's expenses were running $172,000 a day, and the average annual salary for a skilled worker was $1,000. On a more personal basis, my own first job in 1939 was loading trucks five days a week and half-days Saturday (it was a union job at George W. Button Co. in NYC). My pay was $18.75 a week. Later in 1946, after I had left the Army Air Force and graduated from college, I got a job as a textile designer in NYC starting at $35 a week. Times have changed, and so has the value of the dollar.

* *

If you like trading and up-to-the-minute information and advice on the markets (stock, bonds, currencies, metals, etc.), you might get in touch with *M.J. Capital's Daily Futures Market Analysis*. This very intelligent service presents you with a four to six page FAX each morning. The daily FAX includes charts, trades, thoughts, concepts. I find this service most interesting and enlightening (warning, you can become addicted). 1-800-525-5334 out of Great Neck, NY.

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For those of you don't know about it, the 1989 pages for both my D-J Averages chart book and my Advance-Decline chart book are now available at $3 per page. For new subscribers who want information on these two historical albums, just drop me a line. I can tell you this -- hardly a week goes by that I don't refer to them. To me, these albums are invaluable (of course, I publish them, but the reason I publish them is that no one else does, and I need the information).

* *

The current March 26 (60th Anniversary) issue of Fortune contains numerous interviews with today's leaders: the subject -- the world of tomorrow. One of the most fascinating interviews was the one with billionaire Ross Perot, the man GM paid off in order to keep him silent. Here's an excerpt from Perot: "When I go to Asia or Europe I feel like I'm looking at tomorrow. When I go to many US cities I see decay and neglect and I feel like I'm looking at yesterday. You compare the work force in Europe with the work force in the US and it's just scary. Look at West Germany. Talk about a country that's in the catbird seat for the nineties. It's getting cheap, skilled labor from East Germany, putting it at a tremendous advantage.

"The only way to bulletproof our country is to design and make the best products in the world. I keep a little clock on my desk. It's made in Japan. It cost $39. The technology is awesome, and it does a lot of neat stuff. And it *looks* beautiful. Where do the best shoes come from? The best dresses, finest cars, watches, TVs, stereos, and compact disc players? Not from the US.

"We can't compete if we don't have strong leaders who will rebuild our companies so they can make the finest products in the world. We don't have many Henry Fords out there who love the products, who are creating great new things, who are totally devoted to their people and their company. When will the cleanup start? Typically, in a free society, after a crisis. Everything hits the wall. . .The sad thing is that it will hurt millions of people."

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What's the largest cash prize in the world? It's the Templeton Prize for Progress in Religion, given by investment genius John Templeton of the Templeton group of funds (this year's award $575,000). The prize has been given every year since 1972, and

previous winners include Mother Theresa and Billy Graham. Templeton sees a link between the spiritual side of life and economic well-being. Says multi-millionaire (probably billionaire) Templeton, "The spiritual aspect is the totality of one's life. One of the results of that spiritual attitude is that you want to work hard. You're able to be wiser and make fewer mistakes." He adds, the good that comes to such a person is not the purpose of spirituality -- it's the consequence.

GOLD: There are as many opinions on gold as there are analysts. But some analysts have better records than others. One of those (with a fabulously good record) is my old friend, A.J. Frost of Canada (a retired Canadian tax judge and a lifelong market student).

A few weeks ago, Mark Leibovit of the *Volume Reversal Survey* talked by telephone with Frost. I quote Frost from time to time, and his knowledge and experience is always valuable (he co-authored the Elliott Wave book with Bob Prechter). At any rate, this is a piece of the conversation:

Leib.: What about gold?
Frost: I'm very bullish on gold.
Leib.: But gold hasn't done anything.
Frost: I know, but it has been in a corrective pattern. The shares have gone up about 7.8% vs. 2.5% in the bullion. The shares are leading the bullion. There are certain stocks like Newmont mining and Placer Dome that I really like. I expect bullion to reach US$500 to $600 this year, probably US$1000 by next year. I eventually think gold is going to US$2000 or $3000, somewhere by 1994 to 1995."

Well, if Frost is right, that's encouraging enough for the metals but hardly encouraging for fiat currencies. Remember this -- a dollar is legal tender only because our government says it is. Today's dollar isn't redeemable for anything of value except base metal coins (i.e., nickels, dimes, quarters, etc.) -- and the intrinsic value of todays coins is next to zero. The dollar will be accepted for debts and purchases of goods only as long as people have confidence in the dollar.

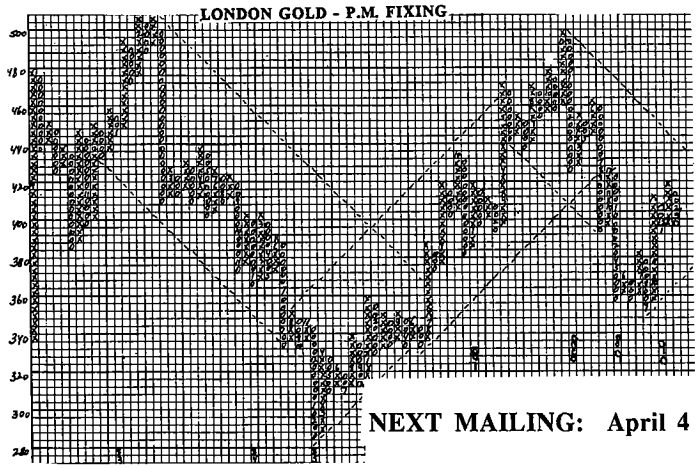
That isn't true of gold. Nobody ever doubted the intrinsic value of gold. The only variable is how many dollars or francs or marks it requires to buy an ounce of gold. Gold doesn't pay interest becauses it doesn't need to. People hold gold because it's real money -- or "just in case." "Just in case what?", you ask. Just in case dollars or marks or lira become worth less or ultimately worthless. Remember this -- every paper (fiat) currency in world history has ultimately become worthless. It's simply a matter of timing.

Point of interest: I watch the ratios of the three precious metals -- gold, silver and platinum. Occasionally, one ratio or the other will get really out of whack. Right now the platinum-to-silver and the gold-to-silver ratio are at extremes. For instance, the platinum to silver ratio tends to fluctuate between a low of around 75 to a high of around 100. Right now it's 98, which means that it takes 98 ounces of silver to buy an ounce of platinum. A trader at this point might buy a silver contract and sell short a platinum contract. The only catch here, of course, is that 95% of all platinum comes from S. Africa, and the S. African situation could easily become dicey.

The gold-to-silver ratio seldom goes higher than 80, and it's around 77 now. Buy silver and sell gold? It might work, but only those who are familiar and comfortable with this kind of play should try it. For 90% of my subscribers, I'd say, watch it -- but don't try it.

Here's another observation, and a sad one. I think I've seen more people lose money in silver than in other other items, stocks, bonds and commodities included. Why? Darned if I know -- silver just seems to be a trader's nightmare.

Gold has been sinking, backing and filling just under the 400 level. The fact that gold broke below the psychological 400 level



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probably turned a lot of people bearish on the metal -- which is exactly what is needed (there was far too much bullishness towards gold a few months ago when the metal rallied to the 420 level).

The accompanying chart traces the gold action back to 1982. What we see here is the initial surge from the 356 low (X on chart) recorded in Septemer 1989. Gold got up as high as 420, then fell back to 396. Since then it has been backing and filling, and stirring up a good deal of skepticism regarding whether this is really a bull market for gold. On March 15, the gold stocks suddenly popped -- for no discernable reason. This kind of action is often a good omen for the metal. Patience. (Point and figure chart courtesy of *Chartcraft,* New Rochelle, NY 10801.)

32 YEARS: I've gone back and put **ALL of Dow Theory Letters on microfilm,** every Letter from the first one I wrote on **July 23, 1958 to March 1990.** It's something I've wanted to do for a long time, and I've had many requests for it. It's all there -- my good calls, my bad calls, my triumphs, my disasters. Thousands of charts, fundamental and technical studies, Dow Theory discussions, point & figure studies, cycles, odd lots, breadth studies, my PTI, and every other kind of study, plus history, observations, arguments, politics, philosophy, psychology, economics, personalities, you name it.

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LATE NOTES: As the week opens, my **PTI** is at 3281--practically sitting on its 89-day moving average. Upside action this week would move the PTI to the bullish mode. On March 18, the **Nikkei** average dropped over 4% to a 14-month low. So far, the US market has ignored the Nikkei collapse, leading many analysts to talk optimistically about "decoupling," meaning that US markets can go up while Japan fades. I've stated over the years that primary movements are international in scope. If Japan, the strongest market in the world, turns bearish, can the US market hold up? The test is upon us.

On the **tax front,** it's as I predicted a few years ago. (1) First they take away all the tax shelters, placating the citizens by lowering income tax rates. (2) Later they raise the tax rates. No. 2 is being proposed now. Thanks Dan Rostenkowski!